Testimony of Steven Gutierrez
Boardmember, San Joaquin County Board of Supervisors, California
Committee on Financial Services
Stockton, California
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Mr. Chairman, Committee Members:

I would like to begin by thanking you for this opportunity to discuss the impacts of the recent foreclosure crisis on the residents of San Joaquin County. My name is Steve Gutierrez and I have served as a member of the San Joaquin County Board of Supervisors for twelve (12) years. Never in this time have I witnessed a crisis of the magnitude of the current mortgage foreclosure crisis.

Foreclosure Impacts

Foreclosures impact families…the loss of a home and the subsequent uprooting of families is devastating
Foreclosures impact neighborhoods…a foreclosed home impacts neighborhood property values and invites crime, drugs and gang activity.
Foreclosures impact communities…the resulting reduction of the property tax base and increased need for services such as law enforcement, counseling and homeless assistance.

How did this happen?

Earlier this decade, as the ballooning housing market pushed the affordability index past the point where the average first-time homebuyer could afford a typical home in many areas, the real estate industry kept the boom going by offering "teaser rate" mortgages. These loans had artificially low annual percentage rates that were only good for the first few years of the loan, after which they would reset (upward change in loan interest rate) to a much higher interest rate that the buyers in many cases would not be able to afford. As long as housing prices kept going up buyers would be able to use the increased equity in their homes to refinance into more affordable loans. Then, housing prices stopped going up.

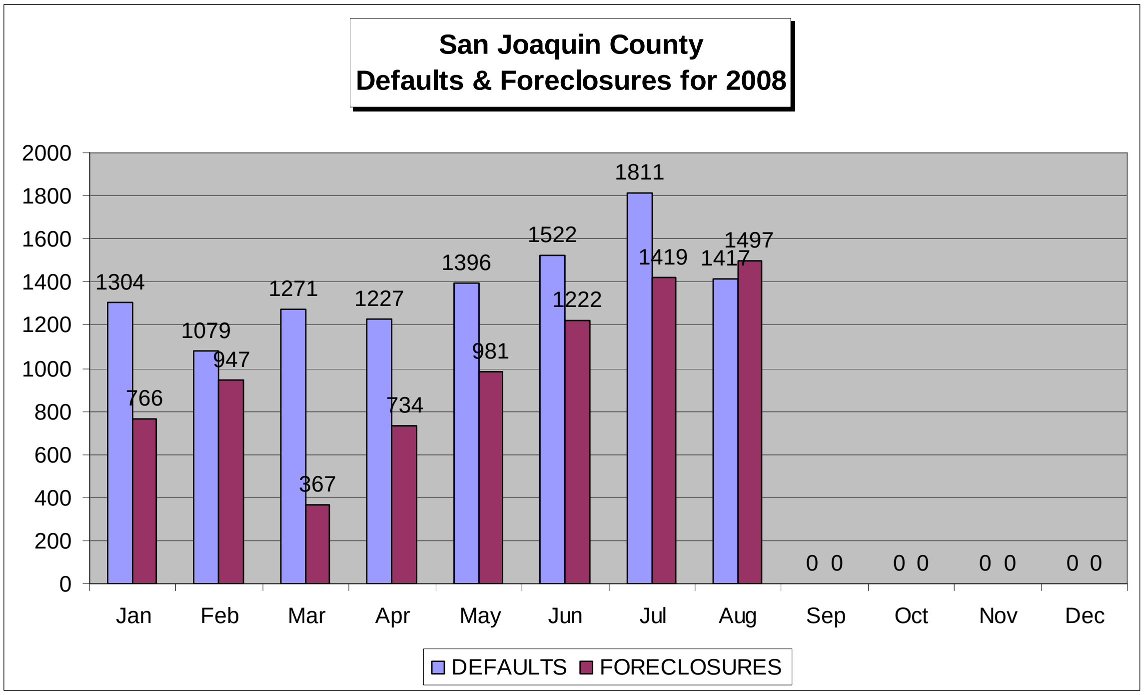
The foreclosure crisis began a couple of years ago with a huge wave of resets in the sub prime market. It has been the failure of these loans, coupled with decreasing home values, which has been responsible for much of the recent turmoil in the housing market.

Many industry experts, in reviewing Federal Reserve loan data, feel the sub prime crisis is the "tip of the iceberg" and on the horizon, particularly here in California, is a huge wave of option adjustable rate mortgages, or the so called "pick your payment" mortgages-which are prime loans. This loan products attractive payments are about to end when the mortgages will reset.
And even though these mortgage resets are on the horizon, research has shown that house value declines are more important than "resets" in predicting foreclosure…current

patterns of delinquency and foreclosures are being seen even before resets are occurring…many homeowners are just walking away from their homes

Here in San Joaquin County

Since January 2007 there have been more than 12,000 foreclosures in San Joaquin County…2,850 foreclosures in my district. This is a significant increase in foreclosures when compared to historical levels.
As you can see by this chart, foreclosure activity in San Joaquin County is on the increase and no relief is in sight.



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What's being done about this Crisis?

In these times of declining revenues and increased demand for services counties and cities are taking steps to mitigate the damages from foreclosures, but we can't do it alone. For example, in 2007 County property tax revenue decreased by approximately 2%, or $4 million. It is estimated that County property tax revenue in the next year will decrease another 6% approximately, or $13 million. In this light, the federal government has an important role in assisting counties and cities in saving our neighborhoods.

The Housing and Economic Recovery Act of 2008, a $300 billion federal government initiative, was signed into legislation to assist 400,000 homeowners facing foreclosure and extends the life of Fannie Mae and Freddie Mac (secondary market loan purchasers). Initiative programs will begin October 1, 2008 and "sunset" September 30, 2011. Key provisions of the legislation are:

- Provides $4 billion in block grants directly to communities hit hardest by foreclosures.

- Provides $180 million for pre-foreclosure counseling.
- Develops an FHA refinance program for homeowners with problematic sub prime loans.
- Reforms FHA, government insurer of loans, to make homeownership more accessible in high cost areas, requires 3.5% down payments and requires new homebuyer counseling.
- Establishes a $7,500 First-time Homebuyers Tax Credit.
- Provides for foreclosure protection for active duty soldiers and veterans.
- Requires new mortgage disclosures.
- Provides increased Low Income Housing Tax Credits to states.
- Establishes a new, independent regulator for Fannie Mae and Freddie Mac.

However, it remains to be seen what affect the Housing and Economic Recovery Act of 2008 will have on the mortgage foreclosure crisis…it's a step in the right direction. Some feel that the legislation may be "too little, too late" because potentially 2.5 million homeowners could be facing foreclosure in 2008…and, what about the hundreds of thousands of households who have already lost their homes to foreclosure? Also, some feel the legislation is inadequate and has several shortcomings:

- The delay from enactment and planned implementation is too long…many will have lost their homes to foreclosure in the interim…there should have been a moratorium on foreclosures.
- The legislation should have included a provision that allowed bankruptcy courts to modify mortgage loan terms on primary residences which would prevent hundreds of thousands of foreclosures.
- $4 Billion of block grants to communities hit hardest by the foreclosure crisis is a "drop in the bucket" when compared to the need. Off the top, one quarter of the grant value is required to be allocated proportionately (1/50 th) to each state…is the problem proportionate?
- Lenders participation is voluntary…they have to agree to reduce loan amounts to 90% of the current home value. What happens if they don't agree?…there seems to a good market for the sale of foreclosed properties.
- There is no acknowledgement of the difficulty borrowers have had finding the holder of their loan and no remedy for this in the legislation.
- Only those homeowners without secondary debt on their homes and whose revised house payment does not exceed 31% of the homeowners monthly income can participate in the refinance program.

Gentleman, the Housing and Economic Recovery Act of 2008 is a good first step in addressing this foreclosure crisis; please don't let it be the final step. Don't let this crisis continue to devastate our families, our neighborhoods and our communities.

Mr. Chairman, that concludes my formal testimony. I hope this testimony has been useful in expanding your understanding of the impacts of foreclosure on families and local government in the Central Valley. If you have any questions, I will do my best to answer them. Thank you.